

Message Text

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PAGE 01 TOKYO 08080 020259Z

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15

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-----020315Z 030510 /64

P R 020220Z JUN 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 8253

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

UNCLAS TOKYO 8080

PARIS ALSO FOR USMISSION OECD

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - MAY 26-JUNE 1

1. SUMMARY: INDUSTRIAL PRODUCTION SHOWS HEALTHY RISE AGAIN IN APRIL BUT SHIPMENTS OF FINISHED GOODS DECLINED AFTER MARCH'S GOOD GAIN. TOKYO CONSUMER PRICE INDEX RISES 0.9 PERCENT IN MAY, ON TOP OF APRIL'S EVEN LARGER 1.6 PERCENT INCREASE. SECONDARY MARKET BOND YIELDS CONTINUE TO DECLINE IN MAY, REACHING 7 1/2 PERCENT PER ANNUM LEVELS. MINISTRY OF FINANCE AND THE BANK OF JAPAN ANNOUNCE RELAXATION OF RESTRICTIONS ON BANKS' INTERNATIONAL OPERATIONS. BANQUE FRANCAISE DU COMMERCE EXTERIEUR GETS GO-AHEAD FOR LARGE YEN BOND ISSUE IN JAPAN; WHILE CITY OF KOBE PREPARES TO ISSUE DM

BONDS IN WEST GERMANY. END SUMMARY.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 08080 020259Z

2. INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, ADVANCED AGAIN IN APRIL, BUT PRODUCERS' SHIPMENTS OF FINISHED GOODS DECLINED AFTER GOOD GAIN IN MARCH. INVENTORIES TO SHIPMENTS RATIO ROSE, FOLLOWING MARCH'S SHARP DROP. ALTHOUGH APRIL PRODUCTION INCREASE WAS SECOND HEALTHY RISE IN SUCCESSION, MINISTRY OF INTL TRADE AND INDUSTRY (MITI) OFFICIALS WERE CAUTIOUS ABOUT INTERPRETING THIS AS HARBINGER OF FUTURE PRODUCTION INCREASES, NOTING THAT ADVANCE INDICATORS DO

NOT SUPPORT SUCH OPTIMISM.

INDEX, S.A., 1970 EQUALS 100; PERCENT CHANGE FROM PRIOR
MONTH IN PAREN

	MIN. MFG.	PRODUCERS:	INVENTORY TO SHIPMENTS
	PRODUCTION	SHIPMENTS	RATIO
FEB	127.5 (-1.9)	132.3 (-1.7)	128.0 (1.9)
MAR	130.7 (2.5)	136.2 (2.9)	123.1 (-3.8)
APR	132.0 (1.0)	134.2 (-1.4)	124.7 (1.3)

3. TOKYO CONSUMER PRICE INDEX (CPI), SEASONALLY UNADJUSTED, ROSE
ALMOST 1 PERCENT IN MAY, ON TOP OF APRIL'S EVEN LARGER INCREASE.
PRIMARY CONTRIBUTOR TO MAY INCREASE WAS RISE IN TRANSPORTATION AND
COMMUNICATION FEES FOLLOWING HIKES IN BUS, SUBWAY AND TAXI FARES.
RECENT TOKYO PRESS STORIES HAVE HIGHLIGHTED PUBLIC CONCERN OVER
RISING PRICES FOR FRESH AND PRESERVED FISH. IN FACT, HOWEVER, RECENT
INCREASES IN OVERALL INDEX HAVE REFLECTED RISING PRICES FOR BROAD
RANGE OF ITEMS AND THE 23.6 PERCENT ANNUAL PRICE RISE FOR FRESH FISH
IS NOT THAT MUCH HIGHER THAN THE ANNUAL INCREASES THRU MAY FOR FRESH
FRUIT (22.4 PERCENT), HEAT AND LIGHT (18.1 PERCENT), OR TUITION
(17.4 PERCENT) AND IS CONSIDERABLY LESS THAN THE 42.6 PERCENT
ANNUAL INCREASE IN TRANSPORTATION AND COMMUNICATION FEES.

	INDEX, N.S.A.	PERCENT INCREASE
	1975 EQUALS 100	FROM PRIOR PERIOD

RECENT QUARTERS:

1976 JUL-SEP	109.5	0.3
OCT-DEC	113.2	3.4
1977 JAN-MAR	116.1	2.6

RECENT MONTHS:

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PAGE 03 TOKYO 08080 020259Z

1977 FEB	116.1	0.5
MAR	116.6	0.4
APR	118.5	1.6
MAY	119.6 (PRELIM)	0.9

4. ALTHOUGH SOMEWHAT MORE SLOWLY THAN IN APRIL, SECONDARY MARKET
BOND YIELD CONTINUED TO DECLINE IN MAY FOR SIXTH CONSECUTIVE MONTH,
REACHING 7.5 PERCENT PER ANNUAL LEVELS. SPECULATION HAS BEGUN ABOUT
ANOTHER LONG-TERM RATE CUT THIS SUMMER, REFLECTING STILL WEAK PRIVATE
DEMAND FOR FUNDS, PARTICULARLY LONG-TERM MONEY. A BANK OF JAPAN (BOJ)
OFFICIAL IS REPORTED IN PRESS AS PREDICTING RECENTLY THAT EFFECTIVE
YIELD ON INDUSTRIAL BOND ISUES WILL BE LOWERED AGAIN BY AROUND 0.3
TO 0.5 PERCENTAGE POINTS, EFFECTIVE WITH JULY ISSUES.

SECONDARY MARKET BOND YIELDS (ANNUAL RATE, IN PERCENT)		
GOVT BONDS	NTT BONDS (JEI (179)	INDUSTRIAL BONDS
MAR 8.416	8.328	8.428
APR 7.737	7.836	7.735
MAY 7.426	7.612	7.747

5. THE MINISTRY OF FINANCE (MOF) AND THE BANK OF JAPAN (BOJ) ON MAY 27 NOTIFIED AUTHORIZED FOREIGN EXCHANGE BANKS OF MEASURES RELAXING (I) RESTRICTIONS ON FOREIGN BRANCH BANKS' CONVERSION OF FOREIGN CURRENCY BORROWINGS INTO YEN; (II) RULES REQUIRING THAT AUTHORIZED FOREIGN EXCHANGE BANKS TREAT INTER-OFFICE FREE YEN LIABILITIES AS ANALOGOUS TO FOREIGN CURRENCY LIABILITIES; (III) RESTRICTIONS ON AUTHORIZED FOREIGN EXCHANGE BANKS' LENDING ABROAD IN FOREIGN CURRENCY. NO FORMAL ANNOUNCEMENT OF THESE STEPS HAS BEEN MADE, BUT MOF OFFICIALS CONFIRM GENERAL ACCURACY OF PRESS REPORTS. THESE REPORTS SUGGEST EASING OF RESTRICTIONS ON YEN CONVERSION IS OF MODERATE SCOPE. AS EXCEPTION TO GENERAL RULE THAT BANKS MAINTAIN SPOT FOREIGN EXCHANGE ASSETS EQUAL TO OR EXCEEDING THEIR SPOT FOREIGN EXCHANGE LIABILITIES, FOREIGN BANK BRANCHES IN JAPAN HAVE BEEN PERMITTED TO CONVERT FOREIGN CURRENCY BORROWINGS INTO YEN UP TO CERTAIN LIMITS. THE PRESENT ACTION INVOLVES SOME EXPANSION OF THESE LIMITS, EFFECTIVE JUNE 8. AT PRESENT INTER-OFFICE FREE YEN LIABILITIES MUST BE UNCLASSIFIED

UNCLASSIFIED

PAGE 04 TOKYO 08080 020259Z

TREATED AS FOREIGN CURRENCY LIABILITIES BY AUTHORIZED FOREIGN EXCHANGE

BANKS IN MEETING THE REQUIREMENT CONCERNING THEIR NET SPOT FOREIGN EXCHANGE POSITION CITED ABOVE. EFFECTIVE JUNE 1, A PART OF SUCH LIABILITIES TO OVERSEAS BRANCHES OR HEAD OFFICES WILL BE EXCLUDED FROM

FOREIGN CURRENCY LIABILITIES AND THE MOF REPORTDLY INTENDS IN THE FUTURE TO EXCLUDE ALL INTER-OFFICE FREE YEN LIABILITIES FROM THE REQUIREMENT. EASING OF RESTRICTIONS ON LENDING ABROAD IN FOREIGN CURRENCY REPORTEDLY INVOLVES ELIMINATION OF RESTRICTIONS ON OUTSTANDING BANKS' SHORT-TERM LENDING ABROAD IN FOREIGN CURRENCY EFFECTIVE MAY 30, AND ALLOWING BANKS INCREASED LATITUDE TO LEND ABROAD AT MEDIUM AND LONG TERM FUNDS RAISED ABROAD AT MEDIUM AND LONG TERM, EFFECTIVE IN JULY. RELAXATION OF THESE RESTRICTIONS IS A COMPANION MEASURE TO IMPOSITION OF RESERVE REQUIREMENTS ON BANKS' FOREIGN CURRENCY LIABILITIES, AS JAPANESE AUTHORITIES SEEK TO SHIFT TOWARD THE USE OF MARKET-ORIENTED POLICY INSTRUMENTS AND AWAY FROM ADMINISTRATIVE RESTRAINTS.

6. JAPAN ECONOMIC JOURNAL (NIHON KEIZAI) REPORTED MOF ON MAY 28 INFORMALLY NOTIFIED BANQUE FRANCAISE DU COMMERCE EXTERIEUR THAT IT HAD APPROVED THE BANK'S FLOATING IN JUNE A YEN 20 BIL ISSUE IN JUNE (OVER \$70 MIL). TERMS ARE YET TO BE SET. PREVIOUSLY MOF RESTRAINED YEN BOND ISSUES BY FOREIGN GOVTS OR FINANCIAL INSTITUTIONS TO AROUND 10 BIL YEN EACH. EXCEPT FOR WORLD BANK AND ASIAN DEVELOPMENT BANK. MOF IS REPORTEDLY STUDYING POSSIBILITIES OF PERMITTING YEN BOND ISSUES OF OVER 20 BIL YEN AFTER JULY. NOMURA SECURITIES CO. IS THE UNDERWRITING MANAGER FOR THIS BOND ISSUE.

7. ON MAY 25, MOF ANNOUNCED THAT THE KOBE MUNICIAPL GOVT WILL FLOAT BONDS IN WEST GERMANY IN JUNE AMOUNTING TO DM 100 MIL (APPROXIMATELY \$45 MIL) KOBE BONDS, WHICH ARE GUARANTEED BY JAPANESE GOVT, WILL BEAR 6.5 PERCENT COUPON RATE WITH REDEMPTION PERIOD OF TEN YEARS. JFY 1977 BUDGET PROVIDS AUTHORITY FOR GOVT-GUARANTEED
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PAGE 05 TOKYO 08080 020259Z

BOND ISSUES ABROAD IN CURRENT FISCL YEAR (ENDING IN MARCH 1978) OF YEN 190 BIL (AROUND \$650 TO \$700 MIL), AS COMPARED WITH YEN 120 BIL (AROUND \$400 TO \$450 MIL) PLANNED IN INITIAL BUDGET FOR JFY 1976.
SHOESMITH

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